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Iger’s Sudden Return to Disney Shocks a Discontented Kingdom

After Bob Chapek, the departing chief executive, tried to put a sunny spin on a disastrous earnings report this month, senior Disney leaders began talking about resigning.

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Bob Chapek was Robert A. Iger’s handpicked successor as Disney’s chief executive.Credit...Alex Welsh for The New York Times

By [Brooks Barnes], [Benjamin Mullin] and [James B. Stewart]
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After a transition marked by numerous setbacks, some self-inflicted, Bob Chapek seemed by early fall to have finally found his footing after two years as Disney's chief executive.

The company's board had unanimously extended his contract until at least July 2025. In August, Disney reported stellar quarterly earnings, including a 50 percent jump in profit, passing Netflix for the first time in streaming subscriptions. At a Disney fan convention in September, Mr. Chapek pitched a rosy future for the company that included coming blockbusters like "Avatar: The Way of Water" and new theme park rides. "I'm very, very bullish," Jim Cramer, the CNBC host, said on air about the company in October.

Then, in November, came Disney's disastrous quarterly earnings report.

Eye-popping losses in streaming. Lower-than-expected theme park profitability. Sharp challenges in cable television, including at ESPN. And yet Mr. Chapek inexplicably purred through an earnings conference call with analysts and investors, spinning the results as positive and offering glowing observations about Disney's ability to sell "magical memories that last a lifetime."

The report and call set into motion events that culminated on Sunday in the firing of Mr. Chapek by the Disney board and the surprise reinstatement of his predecessor, Robert A. Iger, as chief executive until December 2024.

It wasn't just that some senior Disney leaders were aghast about the quarterly results and Mr. Chapek's seemingly delusional delivery of them: Several began speaking openly about resigning if he remained, talk that swiftly reached the Disney board. Christine M. McCarthy, Disney's well-regarded chief financial officer, directly told at least one board member that she lacked confidence in Mr. Chapek. "He irretrievably lost the room," the leader of a Disney unit said on Monday.

This article was based on interviews with more than a dozen people, including Disney executives, bankers who work with Disney, investors in the company, and people close to Mr. Iger and Mr. Chapek, who all spoke on the condition of anonymity because of the shocking and sensitive nature of the leadership change. A Disney spokeswoman declined to comment, except to say Mr. Iger was unavailable for an interview. Mr. Chapek did not respond to requests for comment.

With investors fleeing Disney — its stock dropped 13 percent the day after the earnings report, the biggest decline since the Sept. 11 attacks — and Mr. Cramer of CNBC now openly calling for Mr. Chapek to be fired, the Disney board decided to push the panic button.

Susan Arnold, the board chair, called Mr. Iger, 71, at 3 p.m. on Friday and asked him to return.

At public events over the past year — and in conversations with confidants as recently as this month — Mr. Iger repeatedly insisted that he had no intention of returning to Disney. At the same time, he had been privately railing against Mr. Chapek, according to several people who spoke with him.

He lamented what he said was Mr. Chapek's seeming lack of empathy and emotional intelligence, which resulted in an inability to communicate with or relate to Hollywood's creative community. Disney seemed to be losing its soul, he confided to one associate.

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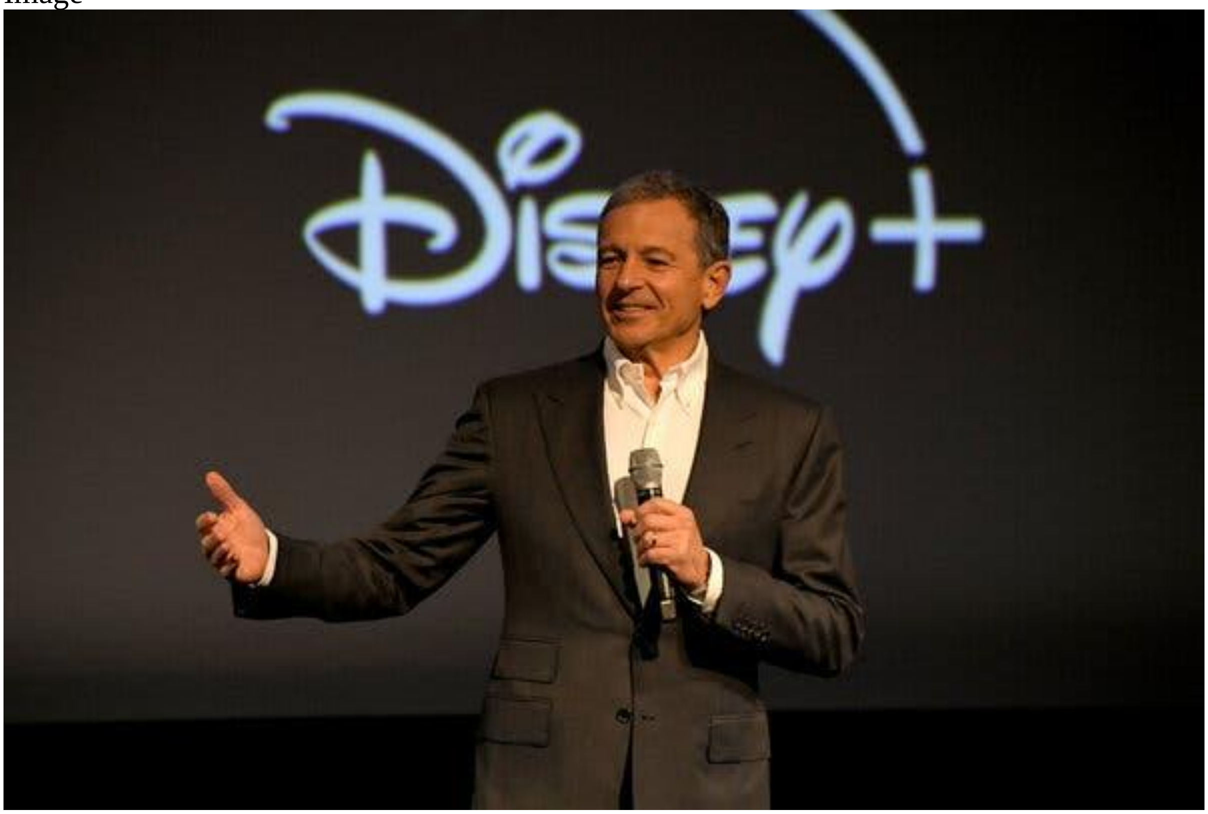
Perturbed about Mr. Iger's trash talk, which made its way back to Disney headquarters, the headstrong Mr. Chapek responded by icing Mr. Iger out — rather than turning to him for advice. Mr. Iger, for instance, never got a call for help when Disney was criticized internally and externally this spring over its approach to legislation in Florida meant to prohibit classroom discussion of sexual orientation and gender identity through the third grade.

This seemed to further annoy Mr. Iger, according to two people who spoke with him.

In Mr. Iger's later years as Disney's chief executive, he became, as longtime leaders tend to, more cognizant about his legacy. He led Disney to record financial results and engineered Disney's acquisitions of Pixar, Marvel, Lucasfilm and the majority of 21st Century Fox, substantially altering the entertainment landscape. He successfully introduced the streaming service Disney+.

But the more Mr. Chapek floundered, the more Mr. Iger's reputation suffered. Mr. Iger handpicked Mr. Chapek for the job, believing that Mr. Chapek's blunt, unsentimental business style would help Disney continue its transformation into a streaming superpower. According to three people briefed on the matter, Mr. Chapek was privately told that he was heir apparent as early as 2018, much earlier than initially realized, and so Mr. Iger had ample time to train him. The final piece of Mr. Iger's legacy — a successful and smooth handoff of power — had been denied.

At the same time, Disney's board was contending with a new threat from an activist investor. Earlier this year, Mr. Chapek and the board successfully managed to navigate a series of demands from Daniel Loeb and his Third Point hedge fund. This month, however, Trian Fund Management purchased more than $800 million of Disney stock and started pushing for its own shake-up and cost cuts.
Image



While many cheered Mr. Iger's return, others wondered if it could make the next leadership change more difficult.Credit...Charley Gallay/Getty Images

Wall Street cheered Mr. Iger's return. Disney gained $12 billion in value overnight, as shares jumped 10 percent on Monday morning. Disney executives, while shocked by the turn of events, were mostly thrilled to see him. ("Daddy's back!" one male senior executive at the company texted on Sunday.) The Hollywood Reporter, a trade news publication, ran the headline "Bob Iger Returns as Hero in Waiting to Save a Battered Disney."

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But there was also a contingent that wondered if Mr. Iger had helped engineer a coup. Doug Creutz, an analyst at Cowen, told his clients on Monday that the development "gives at least some appearance that Iger, and not the board, ultimately calls the shots at the company, and that Iger's willingness to fully surrender power to a successor is low."

He added, “We do not necessarily believe that a lack of leadership is Disney’s problem, and think the change will ultimately make a true transition of power to Iger’s (next) successor even more difficult.”

There are senior executives at Disney who could be groomed into chief executive material, including Dana Walden, Disney’s television chief, and Josh D’Amaro, Disney’s theme park chairman. But neither is quite ready, a person close to the board said.

Two previous candidates to succeed Mr. Iger, Thomas O. Staggs and Kevin Mayer, left Disney and are now running a start-up, Candle Media. A person close to Disney’s board had reached out to them this year with a hypothetical question: Would one or both be interested in returning to run Disney?

Mr. Staggs and Mr. Mayer demurred, according to two people familiar with the matter, adding that any deal would have required Disney to acquire Candle Media and needed Mr. Chapek’s approval, which he was unlikely to give.

That left the board with only one serious option: Mr. Iger.

But he is not a long-term solution. In announcing Mr. Iger’s return, the company said in a statement that he did so with a mandate to develop “a successor to lead the company at the completion of his term.”

Mr. Iger, who reached his deal with Disney on Sunday, has a compensation package that includes a base salary of $1 million, stock incentives expected to be worth $25 million annually and an annual bonus expected to be worth $1 million.

None of the big media companies have yet been able to figure out how to navigate past the collapse of cable television. Streaming services were once viewed as the solution, and still may be, but there has been a drastic shift over the last six months. The game is no longer about growing the number of global subscriptions at any cost; investors now want to see old-fashioned profit.

But Disney has one problem that its competitors do not, and it involves Mr. Chapek’s biggest move during his time as chief executive.

In 2020, Mr. Chapek restructured Disney to give priority to the company’s streaming services (Disney+, Hulu and ESPN+). He took away profit-and-loss responsibility from the executives who run Disney’s movie and television studios, and gave it to a protégé, Kareem Daniel, who was named chairman of a new division, Disney Media and Entertainment Distribution.

The loss of that turf — along with control over when and how films and shows would be released — upset longtime Disney executives, including Alan Bergman, the chairman of Disney Studios Content. Making the situation more touchy, Mr. Daniel had little experience in the vast area he was given to oversee. Mr. Chapek repeatedly insisted that his deeply unpopular reorganization was, in fact, the opposite, with "100 percent buy-in" from Disney managers.

Mr. Daniel's division is notably the one that contributed the $1.5 billion in "peak" streaming losses for the recent quarter, up from $630 million a year earlier, surprising investors.

Mr. Iger ousted Mr. Daniel on Monday. In a note to employees, Mr. Iger said a new company structure was on the way that "puts more decision-making back in the hands of our creative teams and rationalizes costs."

Mr. Iger faces other challenges.

A competitive frenzy has erupted around sports broadcasting rights, with Apple, Amazon and others driving up prices, which has hurt ESPN's bottom line. Sports betting is viewed by some investors as the new streaming — a fast-growth master fix — but fully embracing that business could taint the family-friendly Disney brand.

Animated movies, the heartbeat of Disney, have started to struggle, with Pixar's "Lightyear" bombing in June and "Strange World" expected to disappoint at the Thanksgiving box office.

A deteriorating U.S. economy could hurt attendance and spending at theme parks, where fans have already been upset over near-constant price increases.

Mr. Iger may well be able to quickly put Disney back on the right track, solving his legacy problem in the process. Or he may come to wish he had heeded his own words, spoken during a podcast interview this year when asked if he would consider returning to Disney.

"I was C.E.O. for a long time," he said. "You can't go home again. I'm gone."

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